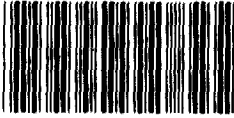


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STATEMENT OF
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HUMAN RESOURCES DIVISION
BEFORE THE

SEN 07103 SUBCOMMITTEE ON EDUCATION, ARTS, AND THE HUMANITIES
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

ON
[Comments on GAO REPORT ENTITLED
"THE FEDERAL PROGRAM TO STRENGTHEN DEVELOPING
INSTITUTIONS OF HIGHER EDUCATION LACKS DIRECTION"]
(HRD-78-170, FEBRUARY 13, 1979)

Mr. Chairman and Members of the Subcommittee, I
am pleased to appear here today to discuss our
February 13, 1979, report to the Congress on the Strength-
ening Developing Institutions of Higher Education Program. - 10.
The program is authorized by title III of the Higher
Education Act of 1965, as amended.

We made the review at Office of Education (OE)
headquarters in Washington, D.C., 19 colleges and
universities, and 7 assisting agencies. We found that
serious questions remain about who the program should
be assisting, how it should be organized, and where it
is going. This is our second report to the Congress
on the Developing Institutions Program. In the first

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review, which was completed in 1975, and again in this later review, we could not evaluate the success of the program because OE had not defined a "developing institution," nor had it determined when an institution would be considered developed. This report points out that there is a need for OE to

- clarify the program's direction,
- reaffirm grantee selection procedures,
- strengthen controls over the expenditure of funds,
- better plan and account for services under funded projects, and
- develop effective performance evaluation procedures.

NEED TO CLARIFY
PROGRAM DIRECTION

Basic to each of the problems we found with the Developing Institutions Program is that it lacks direction. Prior to the program's inception there was concern over the inability to define a developing institution. The Congress included general eligibility requirements in title III of the Higher Education Act of 1965 and authorized the Commissioner of Education to issue specific eligibility criteria through program regulations.

OE issued the first regulations for the program in May 1974--more than 8 years after passage of the law. After 12 years of operation and more than \$728 million in grants, fundamental questions about the Developing Institutions Program are largely unanswered:

--What is a developing institution and how does such a school reach the mainstream of higher education?

--Which institutions should receive priority?

--How long will title III funds be necessary?

Although we identified projects which provided valuable services to institutions, no institutions have been identified as having reached the mainstream of higher education as a result of their participation in the program. It is virtually impossible to determine the program's impact on moving schools toward the mainstream of American higher education. Of the 244 institutions which received grants in academic year 1977-78, 120 had been in the program for at least 8 years.

NEED TO REAFFIRM
GRANTEE SELECTION PROCEDURES

Because so many institutions have been determined to be eligible for title III assistance, OE has been unable to fund all applications. Therefore, OE must be selective in making grant awards.

However, OE's procedures for selecting institutions have been inconsistently applied, and determinations have been subjective. Because institutions which had participated in the program for several years received preference, institutions with the most critical needs or the greatest opportunity for advancement might not have been served. Institutions receiving grants might have become dependent on this support rather than seek ways to replace this money.

Since 1973, the Developing Institutions Program has been divided into two programs--Basic and Advanced. OE established the Advanced program for more highly developed institutions which were close to, but not in, the mainstream of higher education. These schools were expected to reach a stage where they would no longer need title III assistance. Under the Basic program, OE offered grants to less developed schools to improve their overall quality.

Technical review

OE uses field readers and OE officials in the technical review of funding applications. For fiscal year 1977, field reader reviews of applications resulted in inconsistent and inconclusive recommendations for final funding and many readers had conflicts of interest based on OE procedures. Twenty-four percent

of the Basic program field readers worked for institutions which applied for Basic program funding. Staff from OE's title III program reviewed applications for Basic and Advanced programs, contrary to OE's procedures.

For these reasons, the value of the field reader recommendations to OE was questionable. For the technical review process for fiscal year 1977 grants, for example:

- Not all Advanced program applications received field reader reviews.
- Eighteen of the 410 Basic applications came from institutions which had already been recommended for funding under the Advanced program.
- Field readers' recommended funding levels varied widely for the same application.

Final Funding Determinations

After the field reader reviews, OE's Basic and Advanced program staffs separately determined which projects would be funded. Title III awards for fiscal year 1977 revealed many inconsistencies in OE's application of procedures for selecting institutions for funding. These inconsistencies resulted in questionable awards. This was especially true in the Basic program, which followed a predetermined funding strategy.

This funding strategy set standards for distributing funds among colleges representing the various ethnic and racial populations in American higher education.

The inconsistent application of the selection procedures shows up in an analysis of the final Basic program grantees for fiscal year 1977:

- Many institutions which received large grants received low funding recommendations from field readers.
- Many institutions which received comparatively high field reader ratings did not receive grants.
- Institutions in a single large, multifunction consortium arrangement of predominantly black, 4-year colleges received the largest grants.
- Generally, funding was based on amounts awarded institutions in the previous year.

The inconsistent application of selection procedures in the Basic program raised questions about whether (1) institutions were treated equally in the competitive process and (2) the most deserving institutions received grants.

NEED TO STRENGTHEN
CONTROLS OVER FUNDS

Title III grants are intended to assist developing institutions which are struggling for survival for financial and other reasons. However, adequate

financial controls for the program have not been established to ensure maximum benefits from grants.

OE has not provided grantee institutions with adequate guidance for administering Federal funds and has not established postaward procedures to review expenditures under title III grants. This led to mismanagement of Federal resources by institutions. At many institutions we visited, the institutions' control over title III expenditures did not meet standards set by the law and the general grant provisions. The major problems identified were (1) inadequate support for grantees' payments to assisting agencies, (2) questionable charges to grants, (3) carrying over grant funds beyond authorized grant periods without OE approval, and (4) inaccurate and misleading reporting of financial activities to OE.

Insufficient controls over payments
to assisting agencies

Assisting agencies (service providers) have become deeply involved in the Developing Institutions Program. Basic program grantees use assisting agencies under each arrangement, and some Basic program consortia are controlled almost entirely by assisting agencies. The agencies determine what services will be offered, which schools will be invited as members, and which schools will be coordinating institutions. Basic schools we

visited did not select assisting agencies competitively, even though this was encouraged by OE regulations.

Title III grantees have not adequately carried out their responsibility before making payments to assisting agencies. Grantees have functioned mainly as channels for title III funds, and often based payments to assisting agencies on budgeted projections rather than actual agency cost records and performance.

We found numerous examples of deficient monitoring of assisting agency activities by grantees.

--An institution paid an assisting agency about \$580,000, but it had no documentation to show how the funds were used or what benefits were received. A school official could not adequately explain what the agency was doing with the money and admitted that the grantee school had received no benefits from the arrangement.

--Based on documentation at one assisting agency, many institutions received only a portion of the services to which they were entitled.

--An institution paid three assisting agencies \$82,000 without verifying that the agencies incurred the reimbursed costs.

Many of the problems in monitoring payments to assisting agencies exist because OE has not defined the role of assisting agencies under title III and

the way coordinating institutions and other developing institutions should interact with them. Grantee institutions did not understand their responsibilities for managing funds paid to assisting agencies.

In many cases, charges by institutions and assisting agencies appeared to violate OE's regulations. The most common examples of this were charges for personnel costs (salaries and fringe benefits) and consultants--normally two of the largest items budgeted under a title III grant. We found that charges to title III were not always consistent with individuals' participation in the applicable projects, consultants were paid up to \$300 a day without OE's approval of payments exceeding \$100 per day, and funds earmarked for consultants were used for other purposes.

While these were the most common types of questionable items, there were others.

- Interest earned on title III funds was not returned to the Treasury, as required by the provisions.
- An agency used title III funds to offset deficits in other Federal and non-Federal programs.
- An assisting agency used title III funds to pay a portion of the costs to relocate its headquarters in another city.

We found no cases where OE had collected excess funds or reduced the following year's grants because funds were available at the end of the grant period.

Postaward monitoring

Problems with OE's postaward monitoring activities included the following:

- Grantee evaluation reports normally did not evaluate funding controls.
- There was little OE followup on reports submitted by institutions.
- Site visits were too few and normally did not adequately consider funding controls.
- Audit exceptions were not properly resolved, and assisting agencies have not been audited on a regular basis.

NEED TO PLAN AND ACCOUNT
FOR SERVICES UNDER TITLE III
PROJECTS

Almost any type of project can be funded under title III if it shows promise for developing the participating institutions. While this flexibility enabled developing institutions to design individualized programs, it also led to a number of problems, especially in the Basic program. Many institutions entered into cooperative arrangements without proper consideration of how these projects would help them reach overall development objectives.

The Advanced program placed heavy emphasis on the need for comprehensive planning of an institution's title III activities and, although the institutions were not always successful in meeting their objectives, their programs did seem to be well organized and geared toward achieving some ultimate developmental goals.

Some Basic program projects were not designed to assist the institutions which received title III funds, and some arrangements resulted in payments for non-title III activities. Part of the reason for this was the substantial influence of assisting agencies in the direction that the title III Basic program would take. Because some institutions participate in two or more arrangements with a similar focus it is difficult to ensure that duplicate payments are not made to assisting agencies.

Because most Basic program institutions we visited did not properly plan their development goals, they could not show what additional services were needed or how long title III funding would be necessary.

NEED TO DEVELOP EFFECTIVE
PERFORMANCE EVALUATION PROCEDURES

The Education Amendments of 1972 required title III applicants to "set forth policies and procedures for the evaluation of the effectiveness of the project

or activity in accomplishing its purpose." OE had not implemented adequate procedures for conducting external evaluations in the Basic program, and evaluations in the Advanced program could also be improved. Evaluations were often not objective, complete, or timely and did not provide sufficient feedback on progress. Therefore, OE was unable to use the evaluations to determine how an institution was progressing toward its long-range development goals.

Each Basic program institution decided for itself how the external evaluation would be performed. This led to problems, including (1) selection of review team members with vested interests in the activities they were evaluating, (2) incomplete and inconclusive reporting, and (3) inability of OE to use the reports in administering the Basic program.

Unlike the single evaluations made in the Basic program, the Advanced program provided for evaluations on three levels. Although we noted instances of (1) evaluators having vested interests and (2) incomplete and inconclusive reporting, information submitted to OE provided a better basis for evaluating institution performance.

Site visits

Occasionally, OE conducted site visits to developing institutions. There were no formal procedures for

selecting institutions for visits, and the number of visits fluctuated yearly, depending on the availability of staff and travel funds. During the 1977-78 project year, OE staff made visits to about 17 percent of all schools participating in the program during this period.

Site visit reports for 1977-78 did not give proper coverage to institutions' administration of grant funds, nor did they appraise institutions' progression toward their long-range development objectives. There was no followup by OE staff on issues identified during the site visits, and the reports were untimely.

RECOMMENDATIONS TO THE SECRETARY OF
HEALTH, EDUCATION, AND WELFARE
AND COMMENTS ON REVISED REGULATIONS

Our report contained recommendations to the Secretary of Health, Education, and Welfare to revise or strengthen criteria for determining eligibility, selecting program participants, establishing institution responsibilities in administering grants, and evaluating institution performance. Our recommendations are included as an attachment to this statement.

We believe that it is important that we say something about OE's May 1979 regulations for the Developing Institutions Program. We agree that the regulations might result in some improvements in the administration of the title III program.

However, we are not sure that these revised regulations will be more adequate than the regulations in effect when we made our review in assuring that those institutions intended to benefit by the law receive title III support. It seems to us that, under the new regulations, many institutions which are providing valuable services and are struggling for survival might be ruled ineligible for the program.

RECOMMENDATIONS TO THE CONGRESS

The operating problems and the more basic problem of adequately defining a "developing institution" are so fundamental and pervasive that we believe the program as presently structured is largely unworkable.

Therefore, the Congress should first determine whether or not the title III program should be continued. If it determines that the program should be continued, it should clarify the program's purpose by providing as much specific additional guidance as it can to OE concerning the types of institutions which the program should serve and the ultimate goals that should be achieved by these institutions. The Congress should also determine whether the funding strategies and other criteria, including those in the new regulations, are appropriate and in keeping with the intent of the law.

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Mr. Chairman, that concludes our statement. We will be happy to answer any questions that you or the other Subcommittee members may have.

U.S. General Accounting Office
Recommendations to the Secretary of
Health, Education, and Welfare Concerning
the Strengthening Developing Institutions
of Higher Education Program

NEED TO CLARIFY
PROGRAM DIRECTION

We recommend that the Secretary of HEW direct the Commissioner of Education to:

- Establish eligibility criteria that would take into consideration the intent of the Congress in continuing the program and that (1) will identify those institutions intended to be benefitted by the law and any amendments thereto and (2) can be used to determine what these institutions require to reach developed status.
- Consistently apply those criteria in selecting institutions for program participation.
- Use the refined criteria as standards for measuring the progress of funded institutions in meeting specific step by step categories of development which would move them toward their ultimate goals.

Also, the Commissioner should be instructed to emphasize the need for institutions to plan their activities so that, ultimately, title III assistance is no longer necessary. OE needs to establish more specific categories of development for each institution so that OE can closely monitor the progress of each institution to insure that it is moving consistently toward the mainstream of higher education.

The Secretary of HEW should oversee the implementation of these recommendations so assure that the direction of the title III program and the roles and responsibilities of participating institutions, assisting agencies, and OE are clearly defined.

U.S. General Accounting Office
Recommendations to the Secretary of
Health, Education, and Welfare Concerning
the Strengthening Developing Institutions
of Higher Education Program

NEED TO REAFFIRM
GRANTEE SELECTION PROCEDURES

We recommend that the Secretary of HEW direct the Commissioner of Education to reaffirm the need to adhere to title III program grantee selection procedures which provide for consistent treatment of applications (giving appropriate consideration to factors related to institution eligibility). This should result in grants being awarded to the most deserving institutions, based on eligibility determinations, and alleviate the current subjectivity. Grants should be used for projects aimed at uplifting institutions in those areas which cause them to be eligible for title III assistance.

Also, the Secretary should direct the Commissioner to give special attention to improving the field reader process by

- appropriately screening field readers to insure that they do not have conflicts of interest,
- giving appropriate written clearance if field readers with possible conflicts of interest must be used-- this practice should be allowed only in rare circumstances, and
- providing appropriate guidance to field readers so that greater reliance can be placed on their recommendations.

Deviations from recommendations of field readers and program staff should be fully justified and explained.

NEED TO STRENGTHEN
CONTROLS OVER FUNDS

We recommend that the Secretary of HEW direct the Commissioner of Education to provide grantee institutions with more specific guidance for the administration of title III funds. This guidance should include detailed instructions for

- determining what types of costs may be charged against title III grants;

U.S. General Accounting Office
Recommendations to the Secretary of
Health, Education, and Welfare Concerning
the Strengthening Developing Institutions
of Higher Education Program

- maintaining financial records to support program expenditures, including payments to consultants and assisting agency personnel assigned to title III projects;
- establishing, maintaining, and terminating relationships with assisting agencies;
- returning to the Treasury funds not obligated by the end of the grant period and funds which have been allowed to accumulate at assisting agencies; and
- providing detailed reports to OE on grant activities.

Additionally, the Commissioner should reemphasize the need for identifying potential problem institutions before grants are awarded. This would necessitate a careful review of an institution's performance under previously awarded Federal (both title III and other) grants. OE's procedures for identifying and monitoring "high-risk" grantees should be used as the basis for providing such institutions with badly needed assistance in effectively and efficiently using Federal funds.

Also, the Commissioner should be directed to strengthen postaward monitoring of the financial activities of institutions (especially those identified as high risks) receiving title III grants. This could be done through (1) verification of information provided on periodic financial reports and (2) a systematic site visitation program which includes the use of grants specialists to review the procedures followed by selected institutions in administering program funds.

The Secretary should also direct the Commissioner to implement existing procedures for the proper resolution of audit exceptions including those discussed in our report and other exceptions brought to OE's attention by the audit agency.

U.S. General Accounting Office
Recommendations to the Secretary of
Health, Education, and Welfare Concerning
the Strengthening Developing Institutions
of Higher Education Program

In addition, the HEW Audit Agency should schedule audits of each assisting agency which receives substantial Federal support to determine whether it is adhering to the General Provisions for Office of Education Programs, (45 C.F.R., part 100) and HEW regulations for the title III program.

NEED TO PLAN AND ACCOUNT
FOR SERVICES UNDER TITLE III
PROJECTS

We recommend that the Secretary of HEW direct the Commissioner of Education to:

- Require each institution provided title III assistance to develop a comprehensive development plan.
- Insure that the projects funded at individual institutions are necessary, compatible, and consistent with long-range development goals.
- Evaluate the role of assisting agencies used in the title III program.
- Enforce stricter controls over the use of assisting agencies under title III grants. Greater use of competitive selections of agencies should be encouraged. The services to be provided to the institutions should be clearly defined in a formal agreement showing how the services will move the school toward the mainstream, and final payments to the agency should be made only after the agreed-upon services have been provided. Coordinating institutions should require assisting agencies to submit periodic reports describing the services they have provided, and these reports should be available to OE for review. The coordinating institutions should also be required to periodically check to see that each institution that is part of an agreement with an assisting agency has received its agreed-upon services.

U.S. General Accounting Office
Recommendations to the Secretary of
Health, Education, and Welfare Concerning
the Strengthening Developing Institutions
of Higher Education Program

NEED TO DEVELOP EFFECTIVE
PERFORMANCE EVALUATION PROCEDURES

We recommend that the Secretary of HEW direct the Commissioner of Education to provide title III grantees with more specific guidelines on requirements for conducting program evaluations. These guidelines should insure that

- the evaluation will include an appraisal of the success of each project funded under title III;
- an evaluation will be conducted at least annually by qualified individuals with no vested interests in the institution's program;
- the evaluation will include a determination of the adequacy of (1) the institution's administration of grant funds, including necessary monitoring, support for expenditures, and prior authorizations for changes, and (2) the performance of assisting agencies, including services to be provided to specific institutions, agreements with consultants, and assignment of personnel to work with developing institutions; and
- the evaluation will provide an appraisal of the progress being made by the institution toward meeting development goals.

After these improvements in the evaluation process have been implemented, the Commissioner of Education should be directed to design a better system for monitoring external evaluation reports. This will require more feedback to the institutions on the success of their programs and more followup on potential problem areas identified during the evaluations. The Commissioner should also be directed to improve the site visitation program for title III. This should include the development of the following:

U.S. General Accounting Office
Recommendations to the Secretary of
Health, Education, and Welfare Concerning
the Strengthening Developing Institutions
of Higher Education Program

- Periodic coverage of all institutions receiving grants. High-risk grantees and schools which have had previous problems in administering grants should be the first schools visited.
- Uniform guidelines for conducting site visits, including determination of the adequacy of institutions' financial operations under title III grants, to insure comprehensive and uniform coverage at each location visited.
- A standardized reporting format to allow comparisons of the performance of institutions.
- A system for providing feedback to the institutions and followup action on problems identified during the visits.